

Message Text

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C O N F I D E N T I A L STATE 291506

FOR EA ONLY, MANILA POUCH CEBU

E.O. 11652: GDS

TAGS:SHUM, EAGR, EINV, ETRD, RP

SUBJECT: WEEKLY STATUS REPORT - PHILIPPINES

TO: EA - MR. HOLBROOKE

FROM: EA/PHL - BENJAMIN A. FLECK

1. AQUINO UPDATE (LIMITED OFFICIAL USE)

CONGRESSIONAL INTEREST IN AQUINO REMAINS HIGH. SENATOR BAYH HAS WRITTEN DIRECTLY TO SECRETARY VANCE, WHILE OTHER MEMBERS OF CONGRESS HAVE TELEPHONED EA/PHL OR FORWARDED CONSTITUENTS' INQUIRIES AND PROTESTS FOR GUIDANCE ON SUGGESTED RESPONSE. SOME HAVE REQUESTED NAMES OF GOP OFFICIALS WHO MIGHT BE CONTACTED DIRECTLY FOR INFLUENCE IN STAYING EXECUTION AND GUARANTEEING FAIR RE-TRIAL. LETTERS AND MAILGRAMS WITH SIMILAR FORMATS ARE BEING
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RECEIVED FROM FAMILIAR NAMES AND ORGANIZATIONS, I.E., MOVEMENT FOR A FREE PHILIPPINES. PUBLIC AFFAIRS HAS RECEIVED 40 LETTERS ON THE CASE TO DATE.

2. U.S.-MEXICAN TRADE AGREEMENT POSSIBLE PRECEDENT FOR PHILIPPINES (LIMITED OFFICIAL USE)

THE U.S. AND MEXICO HAVE CONCLUDED A TRADE AGREEMENT UNDER THE MULTILATERAL TRADE NEGOTIATIONS (MTN) IN CONNECTION WITH TROPICAL PRODUCTS -- THE FIRST SUCH ACCORD BETWEEN THIS COUNTRY AND AN LDC. MEXICO PARTED COMPANY WITH OTHER DEVELOPING COUNTRIES WHO HAVE ADAMANTLY REFUSED AT THIS POINT TO MAKE ANY RECIPROCAL MTN TRADE CONCESSIONS TO THE U.S. IT REMAINS TO BE SEEN HOW, OR IF, MANILA WILL REACT TO THE U.S./MEXICAN DEVELOPMENT, BUT IT DOES PROVIDE A PRECEDENT FOR RESOLVING SEVERAL LONGSTANDING TRADE ISSUES, INCLUDING PHILIPPINE REQUESTS FOR MORE FAVORABLE U.S. TARIFF TREATMENT OF COCONUT OIL AND PLYWOOD. THE GOP HAS QUIETLY NEGOTIATED WITH US, AND INDICATED A WILLINGNESS TO GRANT PARTIAL RECIPROCITY, IN RETURN FOR THESE BENEFITS. HOWEVER, TO AVOID BREAKING RANKS AND JEOPARDIZING ITS THIRD WORLD CREDENTIALS, MANILA HAS BEEN RELUCTANT TO ENTERTAIN A SEPARATE DEAL WITH THE U.S. UNLESS IT WERE PART OF BILATERAL OVERALL ECONOMIC TREATY TALKS, PRESENTLY STALEMATED ON THE INVESTMENT ISSUE. WHETHER MANILA CAN NOW SEE ITS WAY TO CONCLUDE A TRADE AGREEMENT WITH THE U.S. IN THE CONTEXT OF THE ACCELERATED MTN SHOULD BECOME APPARENT IN THE NEXT FEW MONTHS.

3. NULLIFICATION OF AMERICAN TIMBER INVESTMENT
(CONFIDENTIAL)

LAST JUNE THE GOP WITHOUT WARNING CANCELLED SEVERAL LOGGING
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LICENSES, INCLUDING THAT OF A PHILIPPINE CORPORATION, MARANAW TIMBER INDUSTRIES (MTI), IN WHICH AN AMERICAN COMPANY, CHAMPION INTERNATIONAL, HOLDS 40 PERCENT EQUITY. AS A CONSEQUENCE, A NEARBY VENEER MILL OWNED BY MTI HAS BEEN CLOSED, IDLING SOME 500 WORKERS. THE GOVERNMENT ACTION WAS PURPORTEDLY TAKEN BECAUSE OF DESTRUCTIVE LOGGING PRACTICES THAT WERE DAMAGING AN IMPORTANT WATERSHED. THE COMPANY HAS DISPUTED THE CHARGE, SAYING IT EXERCISED GOOD FOREST MANAGEMENT. MTI'S REQUEST FOR A REVIEW OF THE DECISION HAS BEEN PRESSED WITH VARIOUS ELEMENTS OF THE PHILIPPINE GOVERNMENT WITH NO DISCERNIBLE EFFECT.

THE REASON MAY BE POLITICAL. MTI'S CONCESSION IS IN A HEAVILY MUSLIM AREA OF NORTHERN MINDANAO, AND THE PROVINCIAL GOVERNOR IS AN IMPORTANT MUSLIM POLITICAL FIGURE WITH EXCELLENT CONNECTIONS IN MANILA. THE COMPANY FEARS THAT IT IS BEING FORCED OUT SO THAT THE CONCESSION CAN BE GIVEN TO LOCAL MUSLIM OPERATORS.

EMBASSY MANILA HAS DISCUSSED THE CASE WITH THE DEPARTMENT OF NATIONAL RESOURCES, THE BOARD OF INVESTMENT, AND MARCOS' EXECUTIVE ASSISTANT. ALTHOUGH SEVERAL OFFICIALS

HAVE BEEN INTERESTED AND SOMEWHAT SYMPATHETIC, NO PROGRESS HAS BEEN MADE TOWARD RESOLVING THE SITUATION, AND NO ACTION WILL BE TAKEN UNTIL THE CASE IS REVIEWED BY MARCOS HIMSELF.

CHAMPION IS NOW MOVING TO A DECISION TO WRITE OFF ITS PHILIPPINE INVESTMENT OF ABOUT DOLS 1 MILLION AND SEEK ANOTHER SOURCE OF SUPPLY FOR ITS VENEER REQUIREMENTS. WHILE NOT AN EVERYDAY OCCURRENCE, THIS WOULD NOT BE THE FIRST TIME THAT AN AMERICAN INVESTOR HAS BEEN SERIOUSLY DISADVANTAGED BY INTERESTS ENJOYING CLOSE MALACANANG TIES.

4. PLEASE NOTE FOR EA ONLY CAPTION.
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